

FDIC State Profile

WINTER 2003

Alaska

Alaska's total nonfarm employment increased 0.86 percent during the year ending third quarter 2003.

- Employment growth continued to outpace the nation, although falling far short of the 1.7 percent growth rate for the year ending June 2002 (see Chart 1), primarily because of continued strength in the educational and health services, government, construction, and leisure and hospitality sectors.
- Employment growth increased 1.5 percent in the lodging and hospitality industry, in part because of strength in the cruise line business. The number of inbound cruise ship visitors increased 14 percent year-over-year during the 2002 summer season.
- State and local government, which represent 19.7 percent of total payroll employment statewide, increased 1.0 percent in the year ending third quarter 2003 and remained positive on a year-over-year basis during the recent national recession. However, the 2004 budget forecasted a loss of 209 government jobs in response to state budget pressures.^{1,2}
- Although Alaska's \$1.9 billion Stabilization Fund will be used to offset a large portion of the projected 2004 budget deficit, the budget will nevertheless cut \$68 million from health services, \$44 million from elderly longevity bonuses, and \$37 million from local communities.
- State government revenues varied significantly over the past decade, because of oil price volatility and a downward trend in oil production. In terms of oil prices, North Slope oil fell to under \$18 a barrel during early 2002, although climbing to a price of over \$35 a barrel in February 2003. Since 1990, oil production declined by almost half, falling to under one million barrels per day (see Chart 2).

Jobs in the seafood-processing industry undermined by low salmon prices.

- Employment in the seafood-packing industry declined significantly from 1998 through 2003 (see Chart 3). Competition from other countries such as Chile and Norway and environmental restrictions reduced demand for and the supply of fish products in the state.
- A worldwide salmon glut as well as falling fish prices during 2001 and 2002 led to food-processing plant closures, con-

Chart 1: Employment in Alaska Continued to Increase During the Recent National Recession

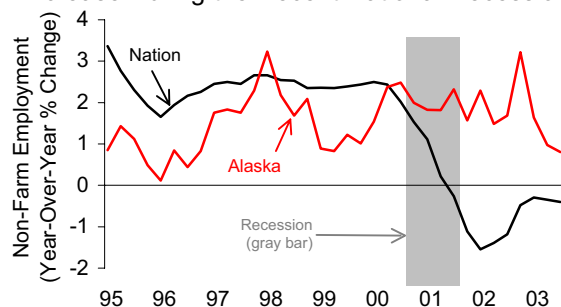


Chart 2: Alaska State Government Oil Revenues Vary with North Slope Oil Prices

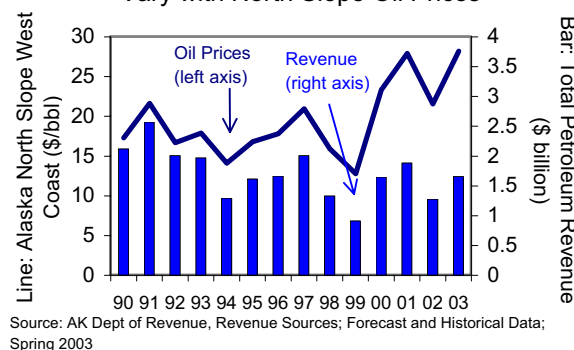
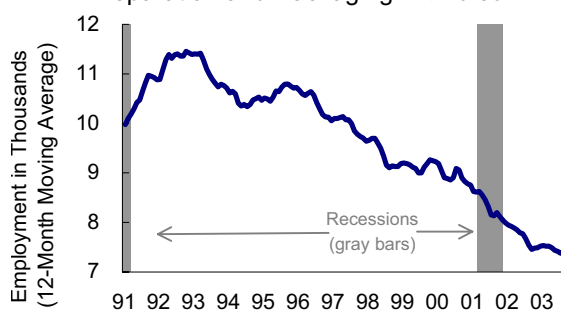


Chart 3: Employment in Alaska's Seafood Product Preparation and Packaging Dwindled



¹ Howk, Robert. "Governor: 'Fiscal Bleeding' Over," Alaska Journal of Commerce, June 23, 2003.

² The 2004 fiscal year began July 1, 2003.

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tributing to an increase in personal bankruptcies and hurting some local economies.³

Asset quality improved in the year ending June 2003.

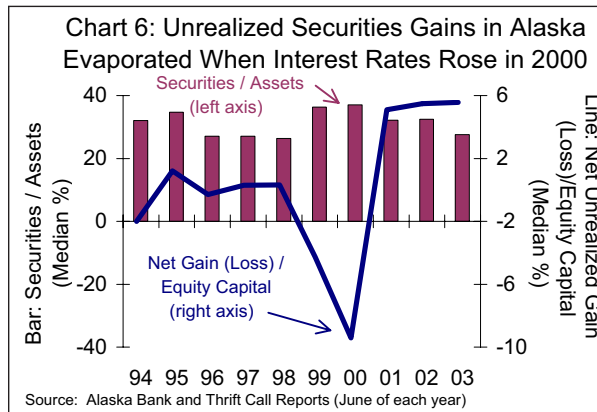
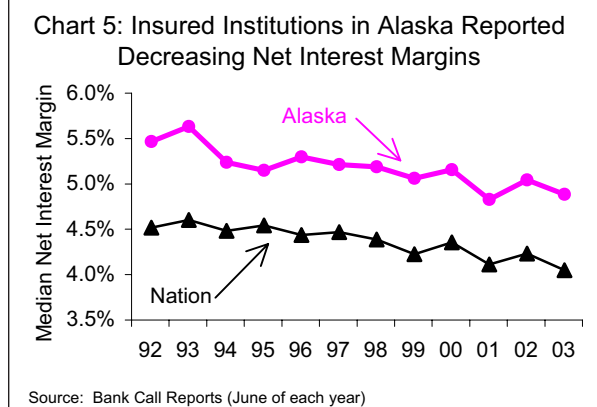
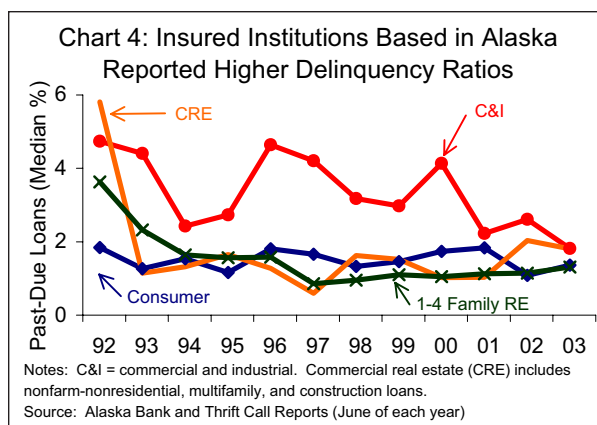
- The median ratio of past-due loans declined to 1.56 percent, down from 1.98 percent at mid-year 2002. Contrary to overall past-due trends, the median ratio of delinquent loans increased slightly in the residential real estate and consumer loan categories (see Chart 4).
- Reserve coverage benefited from a decline in the median past-due ratio through June 2003. The reserve coverage of non-current loans increased to 158 percent, up from 131 percent one year earlier, yet still below the coverage ratio of 166 percent nationwide.

Reduced provisioning and increased non-interest income offset a shrinking of the net interest margin.

- The median return-on-assets ratio for Alaska's eight insured institutions increased from 1.18 percent to 1.27 percent between second quarter 2002 and second quarter 2003, despite a narrowing net interest margin (NIM) and an increase in overhead expenses, mainly because of increased fee income.
- The median net interest margin (NIM) fell to an annualized 4.83 percent for second quarter 2003, down from 4.99 percent a year earlier (see Chart 5). Despite the decline, the median NIM remained significantly above the national median of 4.00 percent.
- Sizeable holdings of non-interest bearing deposits offered insured institutions in Alaska a significant competitive advantage, low interest expense. The Alaska median interest expense-to-earning asset ratio of 0.87 percent for second quarter 2003 was approximately half the 1.77 percent ratio reported industry-wide. The median non-interest bearing deposit-to-earning asset ratio in Alaska was 20.32 percent for the second quarter of 2003, almost double the 11.50 percent ratio reported nationally.

Rising interest rates could reduce potential revenue from unrealized securities gains.

- Higher earnings were in part attributable to securities gains. During the low interest-rate environment of 2002 and the first half of 2003, six of the eight insured institutions realized securities gains. In contrast, during the rising rate environment of 2000, the state reported median net unrealized securities losses (see Chart 6). Should interest rates increase,



the price of debt securities likely would fall, eroding the opportunities to sell securities at a gain.

- During 2002, securities were replaced by loans, which typically carry higher yields. Securities, as a percentage of the assets held by insured institutions based in Alaska, decreased from 33 percent to 28 percent from second quarter 2002 to second quarter 2003, but remain above the national median of 21 percent. Similarly, insured institutions headquartered in Alaska expanded loan volume, with the median loan-to-asset ratio increasing from 48 percent for June 2002, to 52 percent for June 2003.

³ Joling, Dan. "Summit Seeks Fix for Low Fish Prices," Kenai Peninsula Online, April 5, 2002.

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Alaska at a Glance

General Information	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Institutions (#)	8	8	8	8	8
Total Assets (in thousands)	7,304,864	6,700,345	6,400,774	5,740,763	5,611,575
New Institutions (# < 3 years)	0	0	0	0	0
New Institutions (# < 9 years)	0	0	0	0	1
Capital	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Tier 1 Leverage (median)	9.01	8.96	8.96	9.47	9.18
Asset Quality	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Past-Due and Nonaccrual (median %)	1.56%	1.98%	1.39%	1.90%	1.55%
Past-Due and Nonaccrual ≥ 5%	0	0	0	0	1
ALLL/Total Loans (median %)	1.34%	1.26%	1.20%	1.34%	1.35%
ALLL/Noncurrent Loans (median multiple)	1.58	1.31	2.50	3.80	5.34
Net Loan Losses/Loans (aggregate)	0.35%	0.27%	0.20%	0.26%	0.07%
Earnings	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Unprofitable Institutions (#)	0	0	0	0	0
Percent Unprofitable	0.00%	0.00%	0.00%	0.00%	0.00%
Return on Assets (median %)	1.27	1.18	1.09	1.19	1.03
25th Percentile	0.87	0.92	0.59	0.99	0.88
Net Interest Margin (median %)	4.83%	4.99%	4.78%	5.10%	5.01%
Yield on Earning Assets (median)	5.81%	6.59%	8.05%	8.28%	7.96%
Cost of Funding Earning Assets (median)	0.94%	1.59%	3.26%	3.30%	2.95%
Provisions to Avg. Assets (median)	0.10%	0.16%	0.12%	0.08%	0.08%
Noninterest Income to Avg. Assets (median)	1.23%	1.05%	0.89%	1.09%	1.05%
Overhead to Avg. Assets (median)	3.84%	3.73%	4.00%	4.09%	3.99%
Liquidity/Sensitivity	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
Loans to Deposits (median %)	63.89%	62.69%	66.82%	68.64%	63.82%
Loans to Assets (median %)	52.00%	47.71%	49.52%	51.81%	51.41%
Brokered Deposits (# of institutions)	2	1	1	2	2
Bro. Deps./Assets (median for above inst.)	1.76%	1.20%	1.20%	0.78%	0.79%
Noncore Funding to Assets (median)	17.23%	18.44%	20.13%	18.66%	18.85%
Core Funding to Assets (median)	72.05%	70.10%	66.70%	67.88%	70.63%
Bank Class	Jun-03	Jun-02	Jun-01	Jun-00	Jun-99
State Nonmember	3	3	3	3	3
National	3	3	3	3	3
State Member	0	0	0	0	0
S&L	0	0	0	0	1
Savings Bank	1	1	1	1	0
Mutually Insured	1	1	1	1	1
MSA Distribution	# of Inst.		Assets	% Inst.	% Assets
Anchorage AK	4		6,477,334	50.00%	88.67%
No MSA	4		827,530	50.00%	11.33%